The introduction of corporate governance codes in a transitional economy and its impact on compliance with mandatory disclosures: The case of Egypt

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Abstract

This study aims to investigate the influence of the introduction of a corporate governance code in 2005 on the levels of compliance with mandatory IFRSs disclosure requirements by companies listed on the Egyptian Exchange (EGX) as a leading stock exchange in the Middle East. Using a disclosure index derived from mandatory IFRSs disclosure requirements for the fiscal year 2007, this study measures the levels of compliance by a sample of 75 non-financial companies listed on the focus stock exchange. This study extends the financial reporting literature and the emerging markets disclosure literature by being the first to investigate the influence of corporate governance requirements for best practices on the levels of compliance with mandatory IFRSs disclosure requirements by companies listed on the EGX. Results provide evidence of the lack of influence of corporate governance best practices on the levels of compliance with mandatory IFRSs disclosure requirements as it is not yet part of the cultural values within the Egyptian context. These findings are consistent with the notions of the proposed theoretical foundation.

Keywords: IFRSs; Egypt; EGX; ECCG; Board Leadership; Board independence; Board size; Ownership Structure; Isomorphism; Gray's Accounting Subcultural Model; Financial Economics Theories.

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1. Introduction

Across the globe a series of events over the last two decades placed corporate governance at the top of the agenda for business communities, international financial institutions, governments, and capital market regulators. Specifically, these were the Asian financial crisis and the high-profile corporate scandals such as WorldCom, Enron, Lehman Brothers and Tyco. Furthermore, in academia, the topic continues to attract much attention from researchers (e.g., Beasley, 1996; Haniffa & Cooke, 2002; Ghazali & Weetman, 2006; Brown 2007; Ezat & El-Masri, 2008; Felo, 2009; Al-Akra et al., 2010a,b; Samaha, 2010; Samaha & Dahawy, 2010; 2011). Corporate governance is concerned with the system of directing and controlling companies, and it is the responsibility of BOD (Cadbury Committee Report, 1992). It is a fundamental element in improving economic efficiency and growth as well as enhancing investor confidence (OECD, 2004). *"Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined"* (OECD, 2004: 11). The BOD actions are subject to laws, regulations and shareholders in general meeting and the role of shareholders in governance is to appoint the directors and auditors and to make sure that the governance structure is appropriate (Cadbury Committee Report, 1992).

The development of corporate governance is a global phenomenon, influenced by legal, cultural, ownership, and other structural differences (Mallin, 2009), but as yet there is no widely accepted paradigm or theoretical foundation in its respect (Tricker, 2009). For transitional economies, good corporate governance practice may be essential to guarantee the success of their reform programmes and to create a healthy investment climate. However, the corporate governance codes for best practice were initiated in developed countries and only recently introduced in developing ones. Hence, its contribution towards enhancing capital market performance in such countries is subject to the extent to which the

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conditions for robust governance practice are consistent with the existing values, past experiences and the needs of all parties involved in the financial reporting process. It is expected, therefore, to be some time before the impact of applying corporate governance can be measured in developing contexts as this needs to develop, and favourable attitudes and belief must be formed as well as efforts being made to develop the human resource capabilities to apply corporate governance requirements for best practice.

The careful review of the Egyptian modern history demonstrates that the Arab Republic of Egypt has always been the regional leading reformer. The harmonisation of the Egyptian Accounting Standards with IASs/IFRSs began with the launch of the government's economic reform and structural adjustment programme in the early 1990s which commenced under pressure from the international institutions specifically the WB and the IMF as a condition of their providing financial support to Egypt (Dahawy & Conover, 2007; Dahawy & Samaha, 2010). Mandating IFRSs enabled Egypt to access international exchanges, saved time and effort needed for developing national standards from scratch, improved fairness of financial statements prepared by Egyptian companies (Samaha & Dahawy, 2011: 63). The Cairo and Alexandria Stock Exchanges currently referred to as the Egyptian Exchange (EGX) are among the oldest stock exchanges worldwide, the latter being developed in 1888 and the former in 1903. For almost 40 years they experienced stagnation during the nationalisation regime until they were revitalised in 1992 as one entity with two trading floors (CIPE, 2003; Desoky, 2009).

The new listing rules issued by the Capital Market Authority (CMA) in 2002 aimed to enhance the implementation of corporate governance best practice by listed companies, and include comprehensive disclosure requirements (Articles 12 to 19), and detailed requirements for financial statements preparation and presentation (Articles 20 to 33). Article 4 requires the presentation of complete information about the company's board members. Additionally, Articles 34 and 35 indicate delisting rules which compel publicly-listed companies to make a commitment to disclosure requirements, or to risk delisting. The application of the aforementioned listing rules resulted in delisting of 99 non-compliant companies in 2003 (ROSC, 2004).

The assessment of corporate governance practices in the Egyptian Capital Market by the WB in 2004 revealed that Egypt applied 82% of the OECD principles (ROSC, 2004), indicating improvements over time. The major areas of improvement include: basic shareholders' rights, cost/benefit of voting, and disclosure standards (ROSC, 2004). The first Egyptian Code of Corporate Governance (ECCG) was introduced in 2005. This code is based on the OECD corporate governance principles. The code indicates that its rules should be considered as an addition to the corporate-related provisions stated under various laws as well as the executive regulations and decrees regarding their implementation. The ECCG rules are neither mandatory nor legally binding; rather, they promote and regulate responsible and transparent behaviour in managing corporations according to international best practice and aim to ensure equilibrium between various party interests (Dahawy, 2007; GAFI, 2007; UNCTAD, 2007; Samaha & Dahawy, 2011).

A number of studies have been conducted in the last decade for the purpose of investigating the relationship between corporate governance and corporate disclosure practices in different countries (e.g., Chen & Jaggi, 2000; Haniffa & Cooke, 2002; Gul & Leung, 2004; Abdelsalam & Street, 2007; Ezat & El-Masry, 2008; Felo, 2009; Al-Akra et al., 2010a,b; Samaha, 2010; Samaha & Dahawy, 2010; 2011; Abed et al., 2011; Alanezi & Albuloushi, 2011). However, to the best of the researcher's knowledge this study is the first to examine the influence of corporate governance structures (namely, board independence, board leadership, board size and ownership structure) on the overall compliance with mandatory IFRSs disclosure requirements in the Egyptian context. As disclosure lies at the core of all corporate governance statutes and codes, investigating the association between corporate governance structures and the levels of compliance with IFRSs disclosure requirements is expected to enrich financial disclosure as well as corporate governance literature.

This paper addresses three research questions: (i) what is the extent of compliance with mandatory IFRSs disclosure requirements by companies listed on the EGX?; (ii) how could differences in the levels of compliance with the IFRSs be explained by corporate governance structures?; (iii) to what extent do institutional isomorphism theory, cultural theories and economic-based theories help to explain the influence of corporate governance structures on the levels of compliance with IFRSs disclosure requirements within the Egyptian context?

In order to answer the above mentioned research questions, the remaining part of the paper is organised as follows: A literature review is provided in Section 2. Section 3 develops and formulates research hypotheses. Section 4 describes sample selection, data collection, and research methods. Results and analysis are presented in Section 5. Finally, Section 6 concludes.

2. Literature Review and Formulation of Research Hypothesis

Financial disclosure is a rich field of empirical enquiry (Healy & Palepu, 2001). More recently, researchers became more concerned with investigating the issue of adopting a unified set of accounting standards worldwide. This line of research is concerned with investigating the applicability of full compliance with the IFRSs and the association between levels of compliance with the IFRSs and disclosure environment attributes. The importance of evaluating the levels of compliance with mandatory disclosure requirements is proved by the findings of this line of research which reports the absence of de facto compliance with mandatory disclosure requirements in emerging markets (e.g., Abdelsalam & Weetman, 2003; Glaum & Street, 2003; Owusu-Ansah & Yeoh, 2005; Samaha, 2006; Dahawy & Conover, 2007; Al-Shammari et al., 2008; Al-Akra et al., 2010a).

For emerging capital markets good corporate governance practices may be essential for a sound success of their reform programmes and for reserving a healthy investment environment. Following a series of events that took place over the last two decades addressed by the Asian financial crisis and the wide spread of high-profile corporate scandals such as WorldCom and Enron, empirical research into accounting disclosure practices particularly in emerging capital markets began to consider the impact of corporate governance structures on disclosure practices in transitional economies. The development of corporate governance is a global occurrence thus is influenced by legal, cultural, ownership and other structural differences (Mallin, 2009: 13). To date corporate governance does not have a widely accepted paradigm or theoretical foundation (Tricker, 2009: 233). Transparency, fairness and accountability are the core values of corporate governance. Stemming from the desire to enhance access to more capital that is necessary to achieve economic development and globalise their economies, corporate governance practices have been brought in the spotlight in developing countries. In this regard many researchers highlight the influence of corporate board characteristics and ownership structure (e.g., Eng & Mak, 2003, Ghazali & Weetman, 2006; Ezat & El-Masry, 2008; Al-Akra et al., 2010a,b) on disclosure practices of companies listed on emerging stock exchanges. However, I suggest that as corporate governance was initiated in developed countries and as it is newly introduced in developing countries, its contribution to enhancing capital markets' performance is subject to the extent to which the requirements for good corporate governance practices are consistent with the existing values, past experiences and the needs of all parties involved in the financial reporting process. Otherwise, it is expected to take some time until the impact of corporate governance can be measured. This is because it needs developing an understanding, forming a favourable attitude and belief and developing the skills required to apply corporate governance best practice.

3. Development of Hypotheses

This section illustrates the development of the research hypotheses formulated to examine the influence of board of directors (BOD) characteristics (BOD independence, BOD leadership and BOD size) and ownership structure (government ownership ratio, management ownership ratio, private ownership ratio and public ownership ratio) on the levels of compliance with IFRSs disclosure requirements in the Egyptian context. Additionally, the section illuminates those variables to be used as control variables (company size, profitability, gearing, liquidity, type of business activity, and type of audit firm) as identified in previous research as being associated with financial disclosure practices and compliance. In each case expectation is stated based on prior literature.

3.1. Board Independence

Board independence is an outcome of the number of independent directors in the board of directors (BOD). Board independence is an important governance mechanism that is supported by corporate governance reforms in Egypt (Samaha and Dahawy, 2010, 2011). The lack of empirical evidence with respect to the association between board independence and levels of compliance with mandatory IFRSs disclosure requirements within the Egyptian context supports the need for further investigation.

Findings of prior research that examined the association between board independence and financial disclosure are mixed which makes it difficult to predict the relationship between board independence and levels of compliance with the IFRSs in the scrutinised context. Some researchers report a positive relationship (e.g., Arcay & Vazquez, 2005; Cheng & Courtenay, 2006; Abdelsalam & Street, 2007; Abdelsalam & Elmasry, 2008; Ezat & Elmasry, 2008; Felo, 2009). In contrast, some researchers report a negative relationship (Eng & Mak, 2003; Gul & Leung, 2004; Muslu, 2005) while other researchers did not find any relationship (Haniffa & Cooke, 2002; Ghazali & Weetman, 2006). Accordingly, the first research hypothesis can be stated as follows:

H1: There is no relationship between BOD independence and the extent of compliance with the IFRSs disclosure requirements.

3.2. Board Leadership

Board leadership is a governance issue that concerns with whether the chief executive officer (CEO) is also the Chair of the board of directors. Separating the two positions has the potential to improve the monitoring function of the board and to reduce the advantages gained by withholding information, hence to improve the quality of reporting (Arcay & Vazquez, 2005). Combining both roles reduces the availability of independent evaluation of the CEO's performance as the CEOs themselves will select which information to be provided to other directors (Jensen, 1993). In addition, role duality creates a strong individual power base that could impair board independence thus the effectiveness of its governing function may be compromised (Abdelsalam & Elmasry, 2008). The results of prior research investigated the association between board leadership and levels of financial disclosure are mixed. Some studies show that role duality is significantly associated with a lower level of financial disclosure (e.g., Haniffa & Cooke, 2002; Gul & Leung, 2004; Arcay & Vazquez, 2005; Abdelsalam & Elamasry, 2008) while Ghazali & Weetman (2006) report an insignificant relationship. On the other hand, some empirical research show that there is no association between role duality and financial disclosure or reporting quality (Cheng & Courtenay, 2006; Ghazali & Weetman, 2006) and one study (Felo, 2009) reports a positive relationship between role duality and financial disclosure practices. The contradictory nature of these results raises the need to re-examine this relationship and make it difficult to predict the type of the relationship between board leadership and levels of compliance with the IFRSs in the scrutinised MENA capital markets. Accordingly, the second research hypothesis can be stated as follows:

H2: There are no statistically significant differences in the levels of compliance with the IFRSs disclosure requirements between companies that separate the positions of the CEO and the Chair and those that do not.

3.3. Board Size

Board size is one of the corporate governance mechanisms that help in aligning management and shareholder interests (Arcay & Vazquez, 2005; Abdelsalam & Street, 2007). Good governance practices recommend limitations to the size of the BOD (Arcay & Vazquez, 2005), but there is no general consensus on the optimum. Findings from previous research into the association between board size and levels of financial disclosure are mixed. Some researchers report a positive relationship (Barako et al., 2006; Ezat & El-Masry, 2008; Al-Akra et al., 2010a). However, others find no association (Arcay & Vazquez, 2005; Abed et al., 2011). The contradictory nature of these results and the non-availability of a study that investigates the association between board size and levels of compliance with IFRSs disclosure requirements in the Egyptian context make it difficult to predict the type of the relationship between board size and levels of compliance with IFRSs. Accordingly, the third research hypothesis can be stated as follows:

H3: There is no significant statistical relationship between BOD size and the extent of compliance with the IFRSs disclosure requirements.

3.4. Ownership Structure

Ownership structure is defined by Denis & McConnell (2003: 3) as ‘‘The identities of a firm's equity holders and the sizes of their positions’’. The ownership structure of a firm may be a possible determinant of its disclosure practices (Eng & Mak, 2003; Arcay & Vazquez, 2005). High levels of concentration of capital may be accompanied by the owner's considerable involvement in the firm's management, which in turn may lead to unrestricted access to information, thus may limit the demand hence the supply for company information and vice versa (Haniffa & Cooke, 2002; Arcay & Vazquez, 2005; Ezat & El-Masry, 2008). On the other hand, when share ownership is widely held, the potential for conflicts of interests between the principal and the agent is greater than in closely held companies. As a

result, disclosure is likely to be greater in widely held companies to enable the principal to effectively monitor whether his/her economic interests are optimised and whether the agent acts in the best interests of the principal as an owner of the firm (Chen & Gray, 2002). Based on the review of the patterns of ownership structure in the scrutinised companies and the availability of ownership structure related data for these companies, this study examines the influence of ownership structure on the levels of compliance with the IFRSs in the Egyptian context using four distinct measures; government ownership (defined as the percentage of company shares owned by the government), management ownership (defined as the percentage of company shares owned by company management), private ownership (defined as the percentage of company shares owned by private shareholders) and public ownership (defined as the percentage of company shares owned by the free float that is less than 5%).

3.4.1. Government ownership

The results of prior studies that examined the association between government ownership and levels of financial disclosure are mixed. For instance, Eng & Mak, (2003) report a positive relationship while Naser et al. (2006) report a negative relationship and Ghazali & Weetman (2006) find a negative but insignificant relationship. Accordingly, built on the above discussion research hypothesis (4a) can be stated as follows:

H4a: There is no significant statistical relationship between government ownership ratio and the extent of compliance with the IFRSs disclosure requirements.

3.4.2. Management Ownership

The results of the majority of prior studies that examined the association between management ownership and levels of financial disclosure show a negative association (e.g., Eng & Mak, 2003; Arcay & Vazquez, 2005; Ghazali & Weetman, 2006; Abdelsalam & El-Masry, 2008). Thus, the effect of management ownership on levels of compliance with the IFRSs is expected to be substitutive. Accordingly, research hypothesis (4b) can be stated as follows:

H4b: There is a significant negative statistical relationship between management ownership ratio and the levels of compliance with the IFRSs disclosure requirements.

3.4.3. Private Ownership

Similar to government ownership, there is no consensus among prior researchers regarding the influence of private ownership on the levels of compliance with financial disclosure requirements. Some researchers report that private ownership may be a complementary (Haniffa & Cooke, 2002). On the contrary, some researchers report that concentrated ownership and financial disclosure are substitutes (dominance of private shareholders reduces levels of financial disclosure) such as Naser et al. (2006) while others report no association between the dominance of private ownership and levels of financial disclosure (Suwaidan, 1997; Depoers, 2000). Accordingly, research hypothesis (4c) can be stated as follows:

H4c: There is no statistically significant relationship between private ownership ratio and the extent of compliance with IFRSs disclosure requirements.

3.4.4. Public Ownership

The results of most prior studies show a positive association between public ownership and levels of financial disclosure (e.g., Haniffa & Cooke, 2002; Al-Htaybat, 2005; Arcay & Vazquez, 2005). However, Al-Akra et al. (2010b) results support the existence of a significant negative association and Naser et al. (2002) and Al-Akra et al. (2010a) findings do not support the existence of any association between public ownership ratio and the levels of compliance with IFRSs. Accordingly, research hypothesis 4d can be stated as follows:

H4d: There is no significant statistical relationship between the public ownership ratio and the extent of compliance with IFRSs disclosure requirements.

3.5. Control Variables

Based on the findings of prior researchers (Eng & Mak, 2003; Akhtaruddin, 2005; Aksu & Kosdag, 2006 and Naser et al., 2006) firm size is included as a control variable and a positive association between firm size and levels of

compliance with the IFRSs disclosure requirements is anticipated. Evidence relating to the association between firm profitability and levels of financial disclosure is mixed. Some studies report a positive association between these variables (Akhtaruddin, 2005; Aksu and Kosedag, 2006), while others report a significant negative association between them (Belkaoui and Kahl, 1978; Wallace and Naser, 1995). Consequently, the direction of the relationship between profitability and compliance with the IFRSs is unpredictable.

Evidence from prior research on the association between firm liquidity and levels of financial disclosure is mixed. Belkaoui and Kahl (1978) report a positive relationship. In contrast, Naser et al. (2002) find a negative relationship. Consequently, liquidity is used in this study as a control variable, recognising that the direction of the relationship between company liquidity and compliance levels is unpredictable.

Evidence regarding the association between gearing and level of financial disclosure is mixed. Some studies report a positive relationship (Naser, 1998; Naser et al., 2002; Barako et al., 2006), whilst others find a negative relationship (Zarzeski, 1996; Eng & Mak, 2003). Consequently, gearing is employed in this study as a control variable, recognising that the direction of the relationship between the two variables is unpredictable. Based on the evidence provided by prior research that the type of business activity influences its disclosure practices (Haniffa & Cooke, 2002), type of business activity will be employed in this study as a control variable.

Based on the evidence provided by prior research that there is a relationship between the type of auditor and levels of company disclosure (Glaum & Street 2003), type of auditor will be employed in this study as a control variable and it is expected that auditing by a big 4 audit firm has a positive impact on the levels of compliance with the IFRSs.

4. Methodology

4.1 Sample Selection

The annual reports of 2007 for the entire population of non-financial companies listed on the EGX (145 companies) formed the study population. Financial institutions such as banks and insurance companies were excluded because their reports are not comparable with those of non-financial companies as they are subject to other disclosure requirements. Then the following two criteria were applied: The company should have a complete annual report for the year ended 31 December, 2007. There should be information related to corporate governance structure within the company for the year 2007. To meet the first criterion 17 companies were excluded and then 53 companies were excluded to meet the second criterion. Hence, the final sample contained 75 companies.

4.2. Disclosure Checklist

To meet the purpose of this study the researcher uses a self-constructed disclosure checklist based on the IFRSs required to be followed by the IASB in preparing the financial statements for the fiscal year beginning January 2007 and which are mandated in the Egyptian context. The disclosure index employed in this study includes 275 IFRSs based items^b. The disclosure index for each company was calculated as the ratio of the total actual score awarded to the maximum possible score of relevant items applicable for that company. The calculation of the disclosure index (dependent variable) for each company under this approach is as follows:

$$DI = ADS / MD \quad (1)$$

Where:

DI refers to the disclosure index ($0 \leq DI \leq 1$).

ADS refers to the aggregate disclosure score for a particular company.

MD refers to the maximum score possible for that company.

4.3. Data Collection and Regression Model

The data on the chosen independent variables (see below) were obtained from Egypt for Information Dissemination Company (EGID). The following multiple regression model is proposed:

^b The disclosure index employed in this study is not presented here to save space but available from author upon request.

$$Y_j = \beta_0 + \beta_1 \text{ board independence}_j + \beta_2 \text{ board leadership}_j + \beta_3 \text{ board size}_j + \beta_4 \text{ government ownership ratio}_j + \beta_5 \text{ management ownership ratio}_j + \beta_6 \text{ private ownership ratio}_j + \beta_7 \text{ public ownership ratio}_j + \beta_8 \text{ total assets}_j + \beta_9 \text{ return on assets}_j + \beta_{10} \text{ debt to equity}_j + \beta_{11} \text{ quick ratio}_j + \beta_{12} \text{ type of business activity}_j + \beta_{13} \text{ type of audit firm}_j + \epsilon_j$$

Where:

Y_j = Disclosure index for companies ($j=1, \dots, 75$) which denotes the dependent variable.

β_0 = The intercept.

ϵ_j = Error term.

The independent variables consist of seven test variables (board independence, board leadership, board size, government ownership ratio, management ownership ratio, private ownership ratio and public ownership ratio) and six control variables (firm size [proxied by total assets], profitability [proxied by return on assets], gearing [proxied by debt to equity], liquidity [proxied by quick ratio], type of business activity, and type of audit firm). Due to the non-normality of distribution of dependent and independent variables, it was decided to use non-parametric tests and to run the regression analysis using normal scores as transforming data is a recommended approach in order to modify their distribution to look more normal (Field, 2005)^c.

5. Results and Analysis

5.1. Descriptive Statistics

5.1.1. Descriptive Statistics for the Extent of Compliance with Mandatory IFRSs

The results of the analysis of the 75 annual reports of companies listed on the EGX are demonstrated in table 1.

Table 1: Descriptive Statistics of the Extent of Compliance with Mandatory IFRSs by Companies Listed on the EGX.

Country	Min. %	Max. %	Mean %	Std. Deviation	Percentage of companies above 50%	Number of companies above 50%
Egypt	68	91	80	0.04	75	100

Table 1 shows that the average level of compliance with the IFRSs disclosure requirements by non-financial companies listed on the EGX is 80%. The minimum level of compliance was 68% and the maximum level was 91% implying that none of the companies listed on the EGX achieved full compliance with mandatory IFRSs disclosure requirements. Hence, de facto compliance with mandatory IFRSs disclosure requirements in the Egyptian context is problematic although the requirements under the ECG and Capital Market Law mandate full compliance with IFRSs requirements. In most of the cases low compliance levels may be attributed to the preference for secrecy, fear of competition, low non-compliance costs, and weak monitoring. Lack of awareness of the importance of compliance and improved transparency among management of the majority of listed companies are also potential reasons for lack of full compliance with some requirements. Compared to the findings of a more recent study that was conducted on the best performing 15 companies listed on the EGX for the fiscal year 2004 (Dahawy, 2007), a significant increase is seen in the levels of compliance with IFRSs disclosure requirements. The average level of compliance reported by Dahawy and Conover (2007) was 62% (compared to 80% in this study) with the minimum compliance level 52% (compared to 68% in this study) and the maximum 76% (compared to 91% in this study). This difference may be attributed to the use of a more comprehensive disclosure index, and a much larger sample in this study and/or the relative improvement in the monitoring and enforcement functions of the CMA in 2007 (the year of this study) compared to 2004 (the year of Dahawy and Conover's study). However, this disparity supports the proposition that overall progress in compliance levels in the Egyptian context may be a positive sign that the national norms are moving towards compliance but that more time is needed for certain disclosure requirements to become part of the culture of Egyptian corporate management. Thus, progress in compliance levels can be observed over time. That said,

^c The result of tests of normality is not presented here to save space but available from author upon request.

stringent enforcement and strict punishment would foster full compliance much swifter and overcome the existing barriers to full compliance with IFRSs.

5.1.2. Descriptive Statistics for Independent Variables

Table 2 shows that the ratio of independent non-executive directors on the BOD of Egyptian companies ranges from 0% to 100%, meaning that the BOD of some companies listed on the EGX may consist entirely of executive directors or vice versa. However, on average more than 50% of the BOD members are independent which agrees with the recommendation of the OECD principles and that of the ECCG.

Table 2: Summary of Descriptive Statistics for Independent Variables.

Independent Variable	Egypt (N=75)			
	Min.	Max.	Mean	Std. Deviation
Board Independence Ratio	0.00	1.00	0.5052	0.1928
Board Leadership	0.00	1.00	0.51	0.503
Board Size	3.00	9.00	5.17	1.855
Government Ownership Ratio	0.00	0.98	0.1919	0.2964
Management Ownership Ratio	0.00	1.00	0.1121	0.2361
Private Ownership Ratio	0.00	1.00	0.2353	0.3231
Public Ownership Ratio	0.00	0.86	0.1504	0.2429
Company Size	624.0000	11388000	522139.500	1533462.4
Profitability	-0.30	0.31	0.1343	0.0838
Gearing	0.01	2.22	0.6798	0.3995
Liquidity	0.33	8.58	2.5580	1.5314
Type of Business	0.00	1.00	0.35	0.479
Type of Auditor	0.00	1.00	0.31	0.464

In respect of board leadership, the CEO and the Chair positions are held by two different persons in 51% of the companies listed on the EGX. For board size, it ranges from 3 to 9 members, with an average board size of 5 members. With respect to government ownership ratio, this ranges from 0% to 98% with an average of 19%. In terms of the management ownership ratio, this ranges from 0% to 100% with an average 11%. The private ownership ratio is seen to range from 0% to 100% with an average of 24%. Finally, with respect to public ownership, the ratio ranges from 0% to 86% with an average of 15%. The descriptive statistics of the control variables as in Table 2, show that the average firm size measured in terms of total assets is USD 522139.5 million. Profitability measured in terms of return on assets, indicates that the average profitability in companies listed on the EGX is 13%. The gearing measured in terms of debt to equity, averages 0.68. The average liquidity is very high (2.56). This implies the high ability of companies listed on the EGX to meet their short term obligations, which reflects the large margin of safety in companies listed on the EGX and their ability to continue as going concerns. This in turn has the potential to attract more direct foreign investments. Finally, the descriptive statistics of the categorical control variables as indicated in Table 2 show that 35% of the sample companies that are listed on the EGX are non-manufacturing. Also, it is recognised that 31% of the companies listed on the EGX are audited by non big 4 auditors. This implies that the majority of companies listed on the EGX (69%) are audited by big 4 affiliates.

5.2. Univariate Analysis

5.2.1. Univariate Analysis – Total Disclosure Index and the Continuous Independent Variables

Table 3 presents the correlation between the overall level of compliance with IFRSs disclosure requirements (total disclosure index) and continuous independent variables within the Egyptian context. Given that the results of the test

of normality for the total disclosure index show that $P=.2$ ($P>.05$), it was decided to double-check the results of the Spearman Rank Correlation (non-parametric test) using the Pearson Product-moment Correlation (parametric test).

Table 3. Correlation between Total Disclosure Index and Continuous Independent Variables.

Independent Variable	Total Disclosure Index			
	Spearman Rank Correlation		Pearson Product-moment Correlation	
	Correlation Coefficient (r)	Significance (two-tailed)	Correlation Coefficient (r)	Significance (two-tailed)
BOD Independence	.072	.538	.008	.945
BOD Size	.052	.657	.066	.574
Government Ownership	.127	.277	.139	.235
Management Ownership	.031	.790	.019	.872
Private Ownership	-.013	.910	-.019	.871
Public Ownership	-.080	.493	-.152	.193
Company Size	.171	.143	.051	.666
Profitability	-.022	.850	-.087	.456
Gearing	-.122	.297	-.055	.642
Liquidity	-.003	.978	.042	.722

As seen in Table 3, the results of both the Spearman Rank Correlation and the Pearson Product-moment Correlation support the non-existence of any significant correlation between the overall level of compliance with mandatory IFRSs disclosure requirements and continuous corporate governance test variables ($P>.05$).

These findings support the second research hypothesis (H2: there is no significant statistical relationship between board independence and the extent of compliance with IFRSs disclosure requirements). This agrees with the findings of Haniffa (1999), Haniffa and Cooke (2002), Ghazali and Weetman (2006) and Al-Akra et al. (2010a,b). Compared with the findings of prior studies that investigated the association between corporate governance attributes and disclosure practices within the Egyptian context, these findings do not support those of Samaha and Dahawy (2010; 2011) which report a significant positive relationship between voluntary disclosure levels and board independence. With respect to the association between board size and compliance with mandatory IFRSs disclosure requirements, these findings support the fourth research hypothesis (H4: there is no significant statistical relationship between board size and the extent of compliance with IFRSs disclosure requirements). This agrees with the findings of Lakhali (2003), Arcay and Vazquez (2005) and Cheng and Courtenay (2006). Compared with the findings of prior studies that investigated the association between board size and disclosure practices within the Egyptian context, these findings do not support those of Ezat and El-Masry (2008) which report a significant positive relationship between voluntary internet disclosure and board size.

The lack of correlation between levels of compliance with mandatory IFRSs disclosure requirements and either of board independence or board size within the Egyptian context, supports the proposition that the majority of board members in companies listed on the EGX do not carry out their responsibilities with respect to monitoring management behaviour properly, even when outside directors are recognised on the boards in the Egyptian listed companies, they lack material independence as generally, they are appointed to the board because of their close relationship with executive board members, the Chair or controlling shareholders. They may also lack experience or may have insufficient financial incentive to actively monitor management and protect the interests of minority shareholders. This lends weight to the notions of the institutional isomorphism theory (board members in the Egyptian listed companies, do not contribute to improving the BOD's monitoring function even when they meet the independence criterion, being appointed simply to signal that such companies follow corporate governance best practices, and hence, gain respect, consequently the problem of decoupling will continue as companies will state that financial statements are prepared according to IFRSs while full compliance is absent). Furthermore, the predictions of agency theory and cost-benefit analysis (weak monitoring reduces monitoring costs and weak enforcement of IFRSs reduces non-compliance costs) and Gray's (1988) accounting sub-cultural model (acceptance of secrecy, absence of

awareness regarding the importance of transparency and the lack of material independence by board members may support management's selective disclosure to avoid competition and protect company reputation, even though the lack of disclosure is in breach of the mandatory requirements).

With respect to the association between government ownership ratio and the levels of compliance with IFRSs disclosure requirements, the findings reported in Table 3 support hypothesis H5a (there is no significant statistical relationship between the government ownership ratio and the extent of compliance with IFRSs disclosure requirements). This result supports the findings of Naser et al. (2002), Ghazali and Weetman (2006), Al-Akra et al. (2010a). In addition, it supports that of Samaha and Dahawy (2010; 2011) in the Egyptian context. This may be explained by the government's ability to access all company information. Agency theory suggests that, this reduces the monitoring costs, and hence reduces management incentives to improve disclosure. Simultaneously, Gray's (1988) accounting sub-cultural model, cost-benefit analysis, and institutional isomorphism all suggest that given the preference to secrecy the government may not encourage full transparency. This may be due to government's intention to sell its shares in the company at a good price as part of the privatisation programme. Additionally, the lack of awareness and the absence of incentives for members of the public who are implicit owners of government shares discourage direct monitoring of the management (generally government officials) of government-owned enterprises. This contributes to the decoupling problem as companies declare their compliance with IFRSs, simply to gain respect and legitimacy, when in reality they are not complying.

With respect to the association between management ownership ratio and levels of compliance with the overall IFRSs disclosure requirements, the findings reported in Table 3 do not support H5b (there is a significant negative statistical relationship between the management ownership ratio and the extent of compliance with IFRSs disclosure requirements). Although, this result does not agree with the findings of the majority of prior studies investigating the association between management ownership and levels of disclosure, which support a negative relationship (e.g., Eng & Mak, 2003; Arcay & Vazquez, 2005; Ghazali & Weetman, 2006; Abdelsalam & El-Masry, 2008), and with that of Samaha and Dahawy (2010) in the Egyptian context, it supports that of Samaha and Dahawy (2011). This may be explained by reduced agency costs, and predictions based on Gray's (1988) accounting sub-cultural model, cost-benefit analysis, and institutional isomorphism that the secretive culture, lack of management awareness concerning the importance of transparency and compliance, absence of monitoring by board members or stock exchange regulators, and the absence of pressure from minority shareholders, encourage management to keep disclosure levels at a minimum as long as non-compliance costs are less than compliance costs. This in turn contributes to the problem of decoupling. With respect to the association between private ownership and levels of compliance with IFRSs disclosure requirements, the findings reported in Table 3 support H5c (there is no significant statistical relationship between the private ownership ratio and the extent of compliance with IFRSs disclosure requirements). This result supports the findings of Suwaidan (1997), Depeors (2000), and Al-Akra et al. (2010a,b); however, it does not support that of Samaha and Dahawy (2010; 2011) with respect to voluntary disclosure practices in Egypt. This is probably attributable to ease of access to all company information by private investors who are in most cases actively involved in company management either as executives or as directors. Furthermore, based on Gray's (1988) accounting sub-cultural model, cost-benefit analysis, and institutional isomorphism, it can be stated that the secretive culture, and lack of private investor awareness of the importance of transparency will not increase pressures by private investors on management to improve compliance with IFRSs. Furthermore, absence of monitoring from board members or stock exchange regulators, and the absence of pressure from minority shareholders will reduce noncompliance costs; hence will not improve compliance levels with mandatory IFRSs. Consequently, this contributes to the problem of decoupling.

Finally, with respect to the association between public ownership ratio and levels of compliance with overall IFRSs disclosure requirements, the findings reported in Table 3 support H5d (there is no significant statistical relationship between the public ownership ratio and the extent of compliance with IFRSs disclosure requirements). This result supports that of Al-Akra et al. (2010a). However, it does not support the results of the majority of prior studies which support the existence of a positive association between public ownership and disclosure level (e.g., Haniffa, 1999; Haniffa & Cooke, 2002; Al-Htaybat, 2005; Arcay & Vazquez, 2005). In addition, it does not support the finding of Ezat and El-Masry (2008) in the Egyptian context. This result may be attributed to the reduced agency costs due to the lack of demand for more disclosure by naïve public investors in the Egyptian context. Furthermore, Gray's (1988) accounting sub-cultural model, cost-benefit analysis, and institutional isomorphism propose that the secretive culture

causes management to avoid the outflow of stock market price-sensitive information. In addition, secrecy is also associated with large power distance and the tendency to collectivism (Gray, 1988). Furthermore, the lack of listed companies' management and BOD awareness regarding the importance of compliance with IFRSs and of following corporate governance best practices to enhance transparency, the weak enforcement of laws and regulations, and the absence of materially independent board members with primary responsibility for protecting public shareholders interests, cause non-compliance costs to be less than compliance costs. The fact that public shareholders in developing stock exchanges do not exercise their rights, adds to this situation, thereby management is not stimulated to improve compliance with IFRSs, and the problem of decoupling escalates. In this respect, Abdelsalam and Weetman (2007) argue that many public shareholders in Egypt are small investors who cannot form pressure groups like those in developed markets.

Regarding the association between company size and compliance with the overall IFRSs disclosure requirements, the results reported in Table 3 do not support a significant association. This supports the findings of Ahmed and Nicholls (1994), Street and Gray (2002) and Aljifri (2008). In addition, this supports the findings of Samaha and Dahawy (2010; 2011) in the Egyptian context. This may be attributed to the similarity in compliance behaviour with mandatory IFRSs disclosure requirements among all companies listed on the EGX. Table 3 reveals that no association exists between firm profitability and its level of compliance with IFRS disclosure requirements in the Egyptian context, thereby supporting the findings of some previous studies (e.g., Eng & Mak, 2003; Barako et al., 2006). In addition, it supports those of Abd-Elsalam (1999), Ezat and El-Masry (2008) and Samaha and Dahawy (2010; 2011) in the Egyptian context. This may be explained by the similarity in compliance behaviour among all companies listed on the EGX. With respect to the association between firm gearing and its level of compliance with IFRSs disclosure requirements, Table 3 reveals that no association exists, thereby supporting research outcomes of some prior research (e.g., Tower et al., 1999; Haniffa & Cooke, 2002; Aksu & Kosedag, 2006). In addition, it supports those of Abd-Elsalam (1999), Ezat and El-Masry (2008) and Samaha and Dahawy (2010; 2011) in the Egyptian context. This may be explained by the similarities in compliance attitude among all companies listed on the EGX. Finally, Table 3 indicates that no association exists between firm liquidity and its level of compliance with IFRS disclosure requirements in the Egyptian context, thereby supporting the findings of Alsaeed (2005), Barako et al. (2006) and Al-Akra et al. (2010a). In addition, it supports that of Abd-Elsalam (1999) and Samaha and Dahawy (2011) in the Egyptian context. This may be due to the similarity among all companies listed on the EGX in their compliance attitude with mandatory IFRSs disclosure requirements.

5.2.2. Univariate Analysis – Total Disclosure Index and the Categorical Independent Variables

The Mann-Whitney U test was used to determine whether there are significant statistical differences between the two groups of companies that: separate the CEO and Chair positions and those that do not; carry out manufacturing activities and those that carry out non-manufacturing activities; audited by big 4 affiliates and those audited by non big 4 ones. Table 4 presents the results of the Mann-Whitney U test.

Table 4. Mann-Whitney U Test Results for Categorical Independent Variables-Egypt.

Disclosure Index	Mann-Whitney U	Wilcoxon W	Z	Asymp. Sig. (2-tailed)
Board Leadership				
Total Disclosure Index (Total Score)	650.000	1353.000	-.562	.574
Type of Business Activity				
Total Disclosure Index (Total Score)	634.500	985.500	-.028	.978
Type of Auditor				
Total Disclosure Index (Total Score)	570.000	846.000	-.322	.748

With respect to the impact of board leadership, the Mann-Whitney U test results demonstrated in Table 4 show that, no statistically significant differences exist between the two groups of companies (i.e., in which the CEO and Chair positions are held by different persons, and those that do not) in the extent of compliance with the overall IFRSs disclosure requirements as the probability value calculated is greater than .05 ($P=.574$). Consequently, H3: there are no statistically significant differences in the levels of compliance with IFRSs disclosure requirements between companies that separate the positions of the CEO and Chair and those that do not, is accepted. This supports the findings of Arcay and Vazquez (2005), Cheng and Courtenay (2006), Ghazali and Weetman (2006). In addition, it supports those of Ezat and El-Masry (2008) that carried out in the Egyptian context. This can be mainly explained by the lack of material independence of the Chair in the Egyptian listed companies when the CEO and Chair positions are separated. This in turn lends support to the institutional isomorphism which suggests that, separating the CEO and Chair positions has no influence on board leadership independence, as long as there is no awareness regarding the importance of separating the positions of the CEO and Chair in improving the monitoring of management behaviour and hence the quality of financial reporting within the business firm. Consequently, no significant impact on levels of compliance with IFRSs, is expected when the two positions are separated, and decoupling is thus expected to continue due to the existence of cultural barriers to understanding the logic behind the separation of the two positions as recommended under the Anglo-American model of corporate governance. In addition, companies may fall in line with the separation recommendations purely to gain respect and legitimacy. Also, Gray's (1988) accounting sub-cultural model, the notions of agency theory and cost benefit-analysis would argue that given the secretive culture accompanied with lack of material independence of the Chair, weak monitoring and lack of strict enforcement of compliance, non-compliance costs will continue to be less than compliance costs. Consequently, the separation between the CEO Chair positions will not result in better compliance with IFRSs disclosure requirements.

With respect to the impact of the type of business activity (manufacturing/non-manufacturing) on the levels of compliance with the overall IFRSs disclosure requirements, the Mann-Whitney U test results demonstrated in Table 4 show that, no statistically significant differences exist between the two groups of companies in the extent of compliance with the overall mandatory disclosure requirements as the probability value calculated is greater than .05 ($P=.978$). This supports the findings of some prior research (e.g., Naser, 1998; Naser et al., 2002; Street & Gray, 2002). In addition, it supports those of Ismail et al. (2010) and Samaha and Dahawy (2011) in the Egyptian context. This may be attributed to the fact that companies listed on the EGX are the largest companies in their sectors and the most important vehicles in the development of the Egyptian economy, hence there are no differences in their attitude with respect to compliance with mandatory IFRSs disclosure requirements.

Finally, with respect to the impact of the type of auditor (big 4/non big 4) on the levels of compliance with the overall IFRSs disclosure requirements, the Mann-Whitney U test results demonstrated in Table 4 show that, no statistically significant differences exist between the two groups of companies in the extent of compliance with the overall mandatory disclosure requirements as the probability value calculated is greater than .05 ($P=.748$). This supports the findings of some prior research (e.g., Naser, 1998; Naser et al., 2002; Street & Gray, 2002). In addition, this supports the findings of Samaha and Dahawy (2010; 2011) in the Egyptian context. Given that none of the companies that are listed on the EGX achieved full compliance with the overall level of compliance with mandatory IFRSs disclosure requirements, this implies that there is no difference between the quality of work performed by big 4 affiliates compared to non big 4 ones. Hence, this raises doubts concerning the quality of audit work performed by big 4 affiliates that operate in Egypt. Some of these audit firms may not be strict as they may consider the companies to be operating in a developing market, and to require more time to adapt to the compliance culture in respect of IFRSs. Additionally, they may fear the prospect of losing the client should they issue qualified reports; and another possibility is that they may perceive their clients as the best of the worst and believe that issuing them with qualified reports will give an advantage to those companies with lower compliance levels but audited by non-big 4 audit firms. This supports the continuity of decoupling problem in the Egyptian context in two ways. Firstly, listed companies will continue claiming that their financial statements are prepared in accordance with IFRSs while full compliance is absent. Secondly, it seems that in most cases, listed companies engage with big 4 audit firms, paying expensive audit fees merely as window dressing to attract more investors or to avoid extensive monitoring by the disclosure monitoring staff of the CMA.

The above discussion of the findings from the univariate analysis promulgates that none of the corporate governance variables has a significant association with the overall level of compliance with mandatory IFRSs disclosure

requirements. This implies that the impact of corporate governance mechanisms that are recommended by the OECD principles and the ECCG is absent in the Egyptian context. For further confirmation a regression analysis was carried out using normal scores to investigate the joint effect of independent variables as will be seen in the next section.

5.3. Regression results

The regression model employed in this study failed to explain compliance behaviour with mandatory IFRSs disclosure requirements in the Egyptian context. This implies that the compliance behaviour with mandatory IFRSs disclosure requirements by companies listed on the EGX does not follow any pattern in relation to neither corporate governance related variables nor other company attributes under study in this research. From the researcher's point of view, the non-existence of a significant association between levels of compliance with mandatory IFRSs requirements and any of the company attributes that are employed as control variables is a positive sign that generally all companies listed on the EGX have similar attitude with respect to compliance with mandatory requirements (i.e., compliance with the majority of the requirements is now part of their culture). However, the lack of significant association between compliance levels and any of the corporate governance related variables implies that, the influence of corporate governance best practice on the levels of compliance with mandatory IFRSs in the Egyptian context is absent. This may be attributed to its novelty and the lack of awareness of the advantages of material compliance with its requirements in Egypt, meaning that as yet it is not part of the cultural values in the Egyptian context.

6. Conclusion

The disclosure indices of the 2007 annual reports of 75 non-financial companies listed on the EGX were tested for any association with corporate governance structures. The results indicated that the average level of compliance with total IFRSs disclosure requirements was 80%. However, the univariate and multivariate analyses revealed that the influence of corporate governance structure on improving the extent of compliance with mandatory IFRSs disclosure requirements is absent. Hence, the introduction of corporate governance code that is based on the OECD principles in Egypt in 2005 did not achieve its potential. This result is consistent with the notions of the institutional isomorphism theory, Gray's (1988) accounting sub-cultural model, and the financial economics theories. Such consistency adds to the theoretical contribution of this study which can be considered the first to provide a competent comprehensive theoretical foundation of financial disclosure practices in the Egyptian context as one of the transitional economies in the Middle East.

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